

**COUNTY OF SAN LUIS OBISPO BOARD OF SUPERVISORS
AGENDA ITEM TRANSMITTAL**

(1) DEPARTMENT Planning and Building / Auditor - Controller- Treasurer - Tax Collector	(2) MEETING DATE 9/20/2016	(3) CONTACT/PHONE Art Trinidad, Code Enforcement Supervisor/ (805) 781-5705 Justin Cooley, Principal Financial Analyst/ (805) 781-5852	
(4) SUBJECT Request to approve a new FY 2016-17 services agreement with Host Compliance, LLC in the amount of \$71,910 to provide services to better regulate short-term rentals (vacation rentals) in the unincorporated areas of the county and approve a related budget adjustment of \$71,910 from General Fund contingencies to Fund Center 142 - Planning and Building, by 4/5 vote. All Districts.			
(5) RECOMMENDED ACTION It is recommended that the Board: 1) Approve a new FY 2016-17 services agreement with Host Compliance, LLC in the amount of \$71,910 to provide services to better regulate short-term rentals (vacation rentals) and facilitate the collection of Transient Occupancy Taxes (TOT) and related assessments; and 2) Approve a related budget adjustment request of \$71,910 for Fund Center 142, Planning and Building, by 4/5 vote.			
(6) FUNDING SOURCE(S) General Fund contingencies	(7) CURRENT YEAR FINANCIAL IMPACT \$71,910.00	(8) ANNUAL FINANCIAL IMPACT \$71,910.00	(9) BUDGETED? No
(10) AGENDA PLACEMENT <input checked="" type="checkbox"/> Consent <input type="checkbox"/> Presentation <input type="checkbox"/> Hearing (Time Est. ____) <input type="checkbox"/> Board Business (Time Est. ____)			
(11) EXECUTED DOCUMENTS <input type="checkbox"/> Resolutions <input type="checkbox"/> Contracts <input type="checkbox"/> Ordinances <input checked="" type="checkbox"/> N/A			
(12) OUTLINE AGREEMENT REQUISITION NUMBER (OAR) 19001694		(13) BUDGET ADJUSTMENT REQUIRED? BAR ID Number: 1617024 <input checked="" type="checkbox"/> 4/5 Vote Required <input type="checkbox"/> N/A	
(14) LOCATION MAP N/A	(15) BUSINESS IMPACT STATEMENT? No	(16) AGENDA ITEM HISTORY <input checked="" type="checkbox"/> N/A Date: _____	
(17) ADMINISTRATIVE OFFICE REVIEW Lisa M. Howe			
(18) SUPERVISOR DISTRICT(S) All Districts			

County of San Luis Obispo



TO: Board of Supervisors

FROM: Art Trinidad, Code Enforcement Supervisor/ (805) 781-5705
Justin Cooley, Principal Financial Analyst / (805) 781-5852

VIA James A. Bergman, Director of Planning and Building
James P. Erb, CPA, County Auditor-Controller-Treasurer-Tax Collector

DATE: 9/20/2016

SUBJECT: Request to approve a new FY 2016-17 services agreement with Host Compliance, LLC in the amount of \$71,910 to provide services to better regulate short-term rentals (vacation rentals) in the unincorporated areas of the county and approve a related budget adjustment of \$71,910 from General Fund contingencies to Fund Center 142 - Planning and Building, by 4/5 vote. All Districts.

RECOMMENDATION

It is recommended that the Board:

- 1) Approve a new FY 2016-17 services agreement with Host Compliance, LLC in the amount of \$71,910 to provide services to better regulate short-term rentals (vacation rentals) and facilitate the collection of Transient Occupancy Taxes (TOT) and related assessments; and
- 2) Approve a related budget adjustment request of \$71,910 for Fund Center 142, Planning and Building, by 4/5 vote.

DISCUSSION

Background

In San Luis Obispo County, short-term rentals (less than 30 days) of a residence, also known as a vacation rental, present two main regulatory issues. First, the Department of Planning and Building is responsible for ensuring compliance with the land use provisions of Titles 22 and 23 through land use authorizations and code enforcement. Secondly, the Auditor-Controller-Treasurer-Tax Collector (ACTTC) issues County Business Licenses and collects Transient Occupancy Taxes (TOT, also known as "hotel tax" or "bed tax") and related assessments such as the County Tourism Business Improvement District (CBID) and the Tourism Marketing District (TMD). Vacation rentals operating within the seven incorporated cities in the County are under the jurisdiction of their respective cities.

Currently, there are 1,147 licensed lodging businesses operating in the unincorporated areas of the County. Of these licensed lodging businesses, 1,022 are vacation rentals. In the 2015/16 fiscal year, licensed lodging businesses reported and remitted over \$9.2 million in TOT to the County General Fund.

With the growing vacation rental industry and associated online vacation rental platforms that offer booking for vacation homes, the number of available rentals has increased as property owners rent out their homes and/ or secondary dwellings.

These online vacation rental platforms allow residential property owners to advertise their properties for rent, take reservations, and in some cases, process payments. Whether by a matter of policy or through the necessity of their software systems, these online platforms are unwilling to share information (such as property address and owner name)

with local governments. This information would allow for equal enforcement of regulations across all vacation rentals.

In many cases, these property owners comply with applicable land use and business license regulations. However, based on staff's review of vacation rental websites, a significant number of vacation rentals are operating in the county without a business license or land use authorization.

These unlicensed vacation rentals are not in compliance with land use regulations and are not collecting or reporting required TOT and related assessments. Allowing these unauthorized vacation rentals to continue operating puts legally established vacation rentals at a competitive disadvantage and presents code enforcement challenges. Legally established vacation rentals in the Coastal Zone comply with location restrictions, operational standards, and permitting requirements. They also must pass on TOT and related assessments to their guests.

Vacation Rentals, whether licensed or not, can present certain code enforcement issues, such as:

- Noise from parties and pets
- Unpermitted temporary events
- Increased street parking
- Overcrowding of homes
- Conversion of affordable housing
- Loss of long-term rentals and permanent housing supply
- Trash
- Changes to the residential character of neighborhoods
- Inability for the County staff to deal with problems as they are occurring (primarily during weekends and evenings)

Effective enforcement of vacation rentals has been and continues to be problematic because most issues occur in the evening and on weekends when code enforcement staff are unavailable. Staffing during these times will be expensive and difficult to provide given the large geographical area that will have to be covered.

Services Agreement

Host Compliance is a firm that provides a unique service that several jurisdictions in California are currently using. Their proposal to the County is as follows (scope of work included as Attachment 1):

- Identify all potential vacation rentals in the unincorporated County (by their count there are currently over 1,400 operating) using proprietary software;
- Monitor trends, providing us with monthly reports with aggregate statistics on vacation rental activity;
- Monitor compliance for vacation rentals by sending unpermitted rentals notices to obtain permits and licenses;
- Provide ongoing monitoring of permitted property listings to help ensure TOT compliance;
- Provide a 24/7 hotline for neighbors, reporting complaints first to the property manager to resolve, and if after business hours to the Sheriff and/or to Code Enforcement as appropriate.

Host Compliance proposes to provide these services to the County through their proprietary software system which allows them to analyze listings and activity from numerous online rental platforms. These services will allow the County to proactively educate unlicensed vacation rental businesses about the requirements of operating these businesses in the unincorporated areas of the County. Currently there is one other vendor in Southern California that offers a short term rental auditing service. However, their service involves physically surveying and auditing properties and is currently limited to the Inland Empire / Palm Springs area.

OTHER AGENCY INVOLVEMENT/IMPACT

The Department of Planning and Building and the Auditor-Controller-Treasurer-Tax Collector (ACTTC) have worked together to recommend that the Board approve the attached scope of work, so that a purchase order may be prepared.

County Counsel has reviewed the agreement as to form and legal effect.

Central Services has approved the request to waive the County's competitive bid requirement, due to the unique nature of the services provided by the vendor.

FINANCIAL CONSIDERATIONS

The proposed agreement with Host Compliance includes a cost of \$71,910.00 for the first year of participation in the service. Subsequent year costs will be calculated based on the number of then active vacation rental listings. This calculated cost would be negotiated each year. The full cost of the first year of this will be recognized in FY 2016-17. The agreement allows the County to void the agreement and receive a full refund for any reason within the first six months of the agreement.

Staff is requesting a budget adjustment in the amount of \$71,910 from General Fund contingencies to FC 142 – Planning and Building to fund the professional services expense associated with this agreement. The ACTTC estimates that the agreement cost can be recovered from increased TOT compliance from newly licensed lodging businesses. A conservative estimate based on surveys of online operators indicates that a potential \$150,000 in increased TOT could be remitted to the County annually. Since increased TOT revenue would likely exceed the agreement cost, the net impact to the General Fund should be positive.

RESULTS

Approval of the attached agreement with Host Compliance will provide the information and services necessary for the County to efficiently and fairly apply land use, business licensing, and TOT regulations to all lodging businesses operating in the unincorporated areas of the County. Approval of the attached agreement furthers the County's goals of "A Well Governed Community" by providing high quality "results oriented" services that are responsive to community desires for equal application of the County's regulations.

ATTACHMENTS

1. Host Compliance Services Agreement and Scope of Services